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Chesney's: Growing Through Product Expansion

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ABSTRACT

Chesney's: Growing Through Product Expansion

The purpose of this work project is to have a better understanding about how to proceed when a company is challenged by new options to grow and thrive. It aims to decode the next direction of Chesney's Ltd, a United Kingdom leading company in luxurious replicas of antique fireplaces, wood burning stoves and other architectural pieces. The work project relies on the concepts of strategy, innovation and design thinking in order to encourage dynamic activities within the company. Chesney's continuously tries to improve and innovate and this work project will assess whether the possible options have strategic fit with the purpose of the company and consequently, create an introduction plan for the opportunity that shows higher probabilities of becoming successful.

KEYWORDS:

Chesney's Ltd, Innovation Strategy, Marketing Strategy, Design Thinking Strategy

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CHAPTER A – INTRODUCTION

HOW TO PROCEED WHEN FACING NEW GROWTH OPTIONS?

Chesney's Ltd is the UK's leading company for luxury replicas of antique fireplaces. Since its establishment in 1980, Chesney's began from restoration to production and, with the course of time, expanded into other types of projects that include stone and marble, such as staircases, porticoes, facades, columns, bathtubs and flooring. The company has always been committed on being innovative, either by updating and creating new designs in order to enhance their portfolio or by adding new product lines and searching for new markets.

Therefore, with Chesney's willingness to improve and innovate, combined with capabilities in resources and knowledge – work with different types of stone and marble, metal and wood – the company was confronted with new growth options through a strategic plan.

It will be analyzed which strategic options make sense and its coherency with the business.

Finally, how to present the growth opportunity in an introduction plan.

LITERATURE REVIEW

In this work project, the assessment of new growth options for Chesney's is developed in a portfolio management perspective. This idea is inspired by the concept of gathering several different types of projects and innovation within the company, in order to build the strongest portfolio that is going to produce higher return (Nagji and Tuff, 2012).

• STRATEGY

Before decisions are made in a company, it is crucial to be confident about the industry where the organization is in (considering that boundaries between industries are becoming blurred).

Sometimes, companies proceed with strategic decisions through isomorphism (only considering similar competition), forgetting other important threats from other companies (or other industries) that offer alternative solutions to customers. Underestimating non-traditional competition is one of the reasons for business failures, which means that it is important to assess what your business



is today, and also, what it may be tomorrow (Tjan, 2014). If the company considers developments of non-core business, it improves the organization's flexibility and probability to be even more competitive. It is essential for an enterprise to be resilient and ambitious in breaking the rules, to be curious, attentive and courageous in order to challenge conventional wisdom (Chussil, 2015).

- **MARKETING STRATEGY**

Traditionally, Marketing and Strategy emerged from different backgrounds. Marketing results from sales - Marketing Mix and the concept of the 4 P's to plan how to sell something to consumers; Strategy emerged from military theory - how can a company defeat its competition. However, in the course of time, Marketing and Strategy converged and the border between them became cloudier (Martin, 2013). The more important elements became the market and consumers and not as much the product or factory. This means that producing an improved good without paying significant attention into consumers' needs and their purchase criteria may translate into insignificant added value to consumer benefits. *"It's not the consumers' job to know what they want."* — Steve Jobs. In order to achieve success, the company must unveil the customer needs, shape their purchase criteria and choose how to position its products and value proposition. (Dawar, 2013). Marketing strategy requires decision making (e.g. about needed assets and resources allocation), effective and clear communication and consistent performance (Cespedes, 2015). Companies compete relentlessly in order to establish uniqueness. Competition is won by innovating in order to provide cost and risk reduction to customers when they purchase and enjoy the good. Downstream activities (e.g. exquisite customer relations and service) are a more efficient way to create forms of customer value and enduring differentiation (Dawar, 2013).

- **INNOVATION STRATEGY**

Managing innovation with success and efficiency requires knowledge and contextual approach which is adapting innovation to business contexts (Ortt and Van der Duin, 2008). Companies with strong innovation history have correct balances between core, adjacent and transformational



initiatives, as well as the right tools to manage them as a whole (Nagji and Tuff, 2012). In fact, successful innovative companies did not use one approach more intensely or better than others, but instead selected the correct approach and within a certain context. These contexts depend on factors such as strategy, organizational structure, industry and country type. (Ortt and Van der Duin, 2008). Transformational, disruptive or radical initiatives create new businesses.

Breakthrough, adjacent or incremental innovations (can share features with core and transformational innovations) require the leverage of existing capabilities and put them into new uses (Nagji and Tuff, 2012). Company's strategy will determine whether the organization is an imitator, follower or a leader, which denotes the company's concern with innovation – an organization that has adopted a “follower strategy” will not develop disruptive innovations (Ortt and Van der Duin, 2008). Defining the innovation strategy is also related to open innovation since this approach dissipates company's solid boundaries (enables innovation to move freely between external and internal environment). This flexibility allows improvements by combining outsourcing, reintegrating new businesses/new technologies or launching new collaborations (Gassmann and Enkel, 2004).

- **DESIGN THINKING STRATEGY**

A company develops a Strategy when it sets its objectives and, by finding differentiation among its competitor's moves, elaborates a plan to achieve them. (Stone, 2013). Nowadays, business strategies are focusing on innovation to achieve success. However, being able to innovate and actually do it is a more complex subject than just improving creativity. Design Thinking attempts to inspire creativity in order to transform an abstract idea and create something (Cohen, 2014).

“Most people make the mistake of thinking that design is what it looks like. People think that the designers are handed a box and told, ‘Make it look good!’ That’s not what we think design is. It is not just what it looks like and feels like. Design is how it works.” — Steve Jobs.

When principles of design are applied to strategy and innovation, the probability for success is higher. A design mindset is solution-focused and relies on logic, imagination, intuition and reasoning.

Applying the principles of design such as finding simplicity in complexity and beauty as well as functionality (the “Ten principles/commandments of design” by Dieter Rams) it is not necessarily being a designer, however, it is possible to learn the tools and skills to be able to think like one and apply it to leadership and innovation. Designers empathize with the customers, use idea generation techniques, critical thinking, aesthetic, rapid prototyping and collaboration (Naiman). Design Strategy is a discipline that utilizes the designer’s sensibility, methods and business strategy to meet people’s needs, consumer value and market opportunity. There is a myth where great ideas come from brilliant geniuses and imagination is something impossible for the common people. But in fact, successful ideas come from hard work supported by creative human-centered processes and interactive activities of prototyping, testing and refinement. Design thinking may seem chaotic for companies since the projects always go back and forth through the three steps of “Inspiration”, “Ideation” (idea generation and development) and “Implementation” (Brown, 2008). Strategy clarifies the company’s objectives, but the traditional tools to communicate them are highly open to several interpretations. People need to visualize the company’s strategy and design can provide emotional experiences of what it wants to describe. The first step of “Inspiration” begins with insights by observing what is happening. Regardless of the goal, real insights come from people that experience other authentic perspectives. This will provide them with much more richer ideas that actually came from the real world (Brown, 2005). This is empathizing with people and it’s crucial for human-centered design process. By observing and engaging in conversations, there will be a much deeper understanding about the things they do, their needs and what is meaningful for them. This brings focus to the addressed problem and inspires the team (Plattner). Designers do not use abstract “customers”, sometimes they create “personas” to connect and understand. This design briefing starts with searching for innovative ideas that come from insights about the reality, because without it, imagination fails. This stage ends with acknowledgements of certain patterns, being the goal to establish a criteria for the next step (Liedtka and Ogilvie, 2011).



The second phase is “Ideation” – idea generation, in which the team has the freedom to imagine all the possible concepts and outcomes in order to create solutions for the users. In a design project, the objective is to have the widest range of solutions by going beyond the obvious (think about unexpected ideas, pursue volume and variety) (Plattner). This stage is also known as “Brainstorming” and can be helpful to have the right people (small groups, not very extroverts or introverts and diverse), right mind-set (contribute by helping one another) and right stimulus (make trigger questions). After this step, prototyping is essential to make your thoughts explicit to others. Whether it is a model or images, stories and simulations, prototypes are about testing critical assumptions (Liedtka and Ogilvie, 2011). The purpose is to fail quickly and cheaply by being proximate to the final result (Plattner). This provides a good head start over traditional abstract, word-based forms of strategy by making possible for the company to uncover and fix problems in real time as the experience unfolds, which is very useful and efficient (Brown, 2005). Finally, regarding “Implementation”, the company tests and asks for feedback. At the prototyping stage the team is confident that they are in the right direction, but the test should be held as if the solution was wrong, in order to refine and make it even better (Plattner). Before implementation in the market there is the learning launch. The objective is to test final assumptions, but since it is not yet a pilot, it is important to plan certain boundaries, for example, set limits for time of the experience, geography, number of customers. Surprises are expected and quick responses and feedback is crucial for this first contact with reality (Liedtka and Ogilvie, 2011). However, design is endless. The company will continue to improve and upgrade their products or services. This is because the market is always changing and the strategy changes along with it (Brown, 2005). The processes of post-it notes, mind maps and other visual representations may oversimplify the impact of design thinking. Design thinking is the search for a balance between business and art, structure and chaos, intuition and logic, and playfulness and formality. The culture and personality of a design thinking organization would be human-centered, flexible, passionate, disruptive, creative,

and risk taker (Mootee, 2013). And despite design thinking being more than aesthetics, does not mean that it is not important. Great design satisfies our needs and also desires. There are several examples (e.g. iPod was not the first MP3 player) where the successful product was not the first to market but the first to appeal to people in an emotional and functional way (Brown, 2008).

Nowadays, in order to create a sustainable competitive advantage, design thinking is not enough, but instead to develop a mastery of this art (Brown, 2015).

- **PORTFOLIO MANAGEMENT**

In product innovation it is essential to develop portfolio management effectiveness. Strategic choices of portfolio management will influence resource allocation since it fights problems such as too many projects for limited resources which results in longer deadlines or poor quality of execution. An alternative is to have a balanced and diversified portfolio (long/short term, higher/lower risk, several markets) and align it with strategic priorities (Cooper, 1999).

Portfolios with projects in product design should be attentive to human-centered design concepts that assess user needs and activities, so that the methods would satisfy them in a better and smarter way (Norman and Verganti, 2012).

METHODOLOGY

The study conducted about Chesney's growth options was developed, first of all, by assessing important concepts such as innovation and design thinking strategies. The company is actively updating its designs, creating new product versions, expanding and taking advantage of new markets. In order to analyze these new growth options, it is presented an analysis to explain the company's current situation, followed by a strategic innovation process of counter and confront the usual procedures of Chesney's to find new directions, opportunities and solutions. To sustain and consolidate the assessment, there were interviews with the company's CEO along with systematic conversations with the CEO and employees (appendix one). Also the company provided a visit to its headquarters in London, for a deeper connection with the work project.



After finding the solutions or opportunities that better fit the company's strategy, it was analyzed whether they were strong and viable moves or not by making an attractiveness and probability of success assessment. Finally, depending on the results, it was created a business plan to implement the new idea that was considered to be the leading opportunity.

CHAPTER B – CHESNEY'S ANALYSIS

COMPANY

Chesney's Ltd is the leading supplier of luxury fireplaces and wood burning stoves in the United Kingdom. Initially, when the company was born in the 80's, the first projects were restorations of antique fireplaces but in the early 90's there was a change in the company's purpose and scope into reproduction of exact copies of antique fireplaces designs in stone, marble and iron. The intent of Chesney's continued to expand thanks to its constant innovation, which enabled diversification into related product fields, such as staircases, porticoes, facades and flooring.

PURPOSE

Chesney's success is due to its passion and commitment for magnificent design. The company aims to create exact reproductions through intelligent engineering and craftsmanship. Chesney's kept a constant innovation in their collections and outstanding and exquisite service to refined clients. The company is proud for their reputation in top quality by making sure every millimeter is manufactured to the finesse detail from its material quest until its production, distribution, delivery and assembling in the client's home.

CURRENT STRATEGY

- **POSITIONING**
 - **MARKET**

Chesney's is embedded on the architecture and design industry. The fireplace market is operated in an interior design concept, however, the other several projects require architects and engineers since foundations, structure and physics work is needed. Chesney's strikes the industry using a

differentiation approach (products and relationships) by having total customer responsiveness.

Chesney's market includes the UK and the US (with company's showrooms) but also worldwide.

○ PRODUCTS

Currently, the diverse product lines that Chesney's owns are reproductions and antique fireplaces (the most sold items and the products responsible for the biggest profit); wood, gas and electric stoves; fire baskets; register grates; stone and marble architectural items such as cantilevered staircases, window and door frames, baths and sinks, porticoes and building facades. Chesney's product lines and their prices are: reproduction marble and stone fireplaces or chimneypieces, starting from £600 up to £7,500; wood, gas and electric stoves, starting from £850 up to £1,650; fire baskets and register grates, starting from £295 up to £1,450; stone and marble architectural items (all made to order), price range from £15,000 up to £450,000 (depending on the project); and antique fireplaces, starting from £7,500 up to £350,000.

○ CUSTOMERS

Chesney's target markets are wealthy families, adults with medium-high to high income and home owners that are financial stable and willing to improve their comfort at home to a higher level; or also, people with architecture or design businesses that have clients attracted to classical, refined and elegant decoration and materials. These customers are demanding and their homes are required to have the feeling of expensive, royal and luxurious. Chesney's clients are architects, interior designers and private clients from all around the world. The projects provided to these clients are residential and hospitality projects. This means that there are two segments of business: B2B2C (through retail stores and architecture companies) and B2C (by selling directly to customers).

• SUPPLY CHAIN AND OPERATIONS

The company trades worldwide, being the US the country to contribute the most for Chesney's profitability, and retail being the most significant segment, with over 200 dealerships in the UK, Europe, Middle and Far East and North and South America.

The supply chain is composed by the suppliers and factories in Portugal and China. In Portugal, Chesney's counts on three companies to supply them with raw materials, factory production work and craftsmanship. *Lucidal Mármore e Cantarias Ltd* – stone and marble supplier since 1992; *JRDias* – metal supplier and Woodteam – wood supplier. The Chinese supplier is Yantai Europe Stone Ltd which is a wholly owned subsidiary since 2004. In these factories, the materials are extracted from quarries and then crafted, finished and distributed.

The logistic operation is held by Maritime Cargo Services since 1998. This partnership is considered to be very valuable, delivering the goods to Chesney's showrooms, retailers and clients all around the world. This is because the relationship between the companies became personalized since the logistics company learnt about how to deal with products of extreme weight and fragileness.

- **ORGANIZATIONAL RESOURCE PLATFORM** (appendix two)

- **COMPETENCIES**

Chesney's displays a set of competencies in its Organizational Resource Platform such as New Product Development since it is continuously designing new versions and creating new products to add to its portfolio. This shows a complex Design and Development Capability due to the knowledge, processes and systems accumulated over the years of operation. The Project Management is crucial in order to go through the several orders from its raw stages until production, finishes and delivery. Chesney's projects occur fluently but there is not any investment in a project manager, which would improve and strengthen the organization. For this to happen, the Supply Chain Management has to be in accordance with quality and demand, highly organized and efficient. Chesney's Project Portfolio Management is then essential to handle all the different simultaneous projects in a way that everything is coordinated and flows towards the interests of the company.

- **SPECIALIZED ASSETS**

Chesney's has its headquarters located in London, with showrooms both in London and in New York. The company was founded 26 years ago and its strong reputation in quality, especially in

England, stands out in the industry. The clients trust the company and there are several continuing customers. It also owns a Directory of Chimneypieces which makes them able to create several combinations of designs that are true to the antique form. But, relatively to its most relevant competitor, it also owns an antique design collection. However, enabled the company to do something very singular which was to develop an online platform where the clients can design their own fireplace, where every and each detail can be modified and then use the sketch to ask for a budget. Chesney's also owns patents in the wood burning stove sector.

○ ARCHITECTURE OF RELATIONS

The company has several strong and durable relationships. Regarding suppliers, the main company is *Lucidal*, a Portuguese stone and marble factory which provides about 90 percent of Chesney's work. *Lucidal* has been providing raw materials and craftsmanship for 23 years. Chesney's has a wide network of retailers who sell the products in street stores. There are 10 stores in Great London and about 140 stores spread over 19 countries such as United States, Canada, Sweden, Germany, Ireland, Spain and Russia. Other partnerships with Parker Hobart and Maritime Cargo Services are also important. Parker Hobart is a hired company for outsourced marketing projects and Maritime Cargo Services is the logistics company that enables Chesney's to have their products travelling worldwide. Other long lasting relationships such as Zephyr Interiors and Richmond Square are both partners and clients, since they purchase and order products to sell to their customers. Chesney's participates in the Stove Industry Alliance, formed in 2008 by 40 members (manufacturers and distributors), being its objectives to reduce dependency of fossil fuels and reduce carbon dioxide emissions. Chesney's also has R&D centers where the work depends on the type of projects and materials being used.

• FINANCIALS

The company is divided in Chesney's Limited, in London; Chesney's Inc., in New York and Yantai, in China. In 2014, the consolidated turnover was approximately £10,580,000, being the

gross margin 47.5 percent. The net profit was £480,000 (being the profit after dividends and tax £360,000). Since 2011 to 2014, the company's total revenues and net income demonstrated a Compound Annual Growth Rate (CAGR) of 2.3 percent and 74.8 percent, respectively. Being the revenues growth rate between 2013 (£10,070,000) and 2014 (£10,580,000) of 5.14 percent. Which indicates a positive management learning and knowledge over these years. According to Chesney's CEO, in 2015, Chesney's is expecting to have a turnover of approximately £15.5 million (appendixes three to seven)

• ORGANIZATIONAL DESIGN

The company's headquarters in London includes head management office, engineering and design teams. Chesney's is privately owned and governed by a Board of Directors consisting of the following: Chairman, Chief Executive Officer, Finance Director, Trade Sales Director, Retail Sales Director and Operations Director.

Chesney's headquarters in the UK consists in a team of 45 people, in the US the showroom has 8 employees, factory in China has 85 employees and in Portugal 1 engineer working in *Lucidal*.

MAIN COMPETITION

The competitor companies for fireplaces considered were: J. Rotherham and Jamb.

The competitive set for wood burning stoves was: Stovax and Charnwood (Source: Chesney's CEO).

J. Rotherham was born in 1927 as a stone and monumental masonry. Nowadays it has expanded to fireplaces, sculptures, flooring, kitchen and bathroom countertops, sinks and bathtubs. The fireplace styles range from classic to modern. **Jamb** is Chesney's main competitor in antique fireplaces. Jamb states strongly that their products offer historical detail and accuracy. The company also produces other antique products such as furniture (chairs, tables and mirrors) and lighting (globe and wall lanterns). Their forceful reputation occurs from their authentic and antique features. Their turnover is between £3-4 million annually. Their market share is about 20 percent comparing to Chesney's 70 percent (other players own 10 percent, approximate values).

Stovax Ltd was established in 1981 and designs, manufactures and distributes wood burning stoves and accessories worldwide. Their turnover stands around £25 million per year. **Charnwood** is a family owned company that started in 1972. Their priority is customer satisfaction and the first concern is quality over price. The years in the market provided knowledge in the industry and the production of certain devices are in-house to maintain control over functionality. Their turnover stands around £30 million per year. The market share of Charnwood, Stovax and Chesney's is about 40, 30 and 20 percent respectively (other players own 10 percent, approximate values).

CHAPTER C – STRATEGIC PATH

ORTHODOXIES DISRUPTURE

Our only hope for real creativity is to ignore some key constraints in order to identify a new set of possibilities (Liedtka and Ogilvie, 2011). In order to take advantage of new opportunities for growth and value creation for the company, it is advisable that Chesney's challenges some of their orthodoxies. This means that some of Chesney's characteristics might be blocking possible chances of finding new ways to create value and develop growth. What if there are options that were not yet assessed because the company was too focused on its current business strategy?

- What materials does Chesney's work with? Chesney's sees itself as a luxurious brand of stone fireplaces and wood burning stoves. However, this brand image is progressively changing since the company has started providing other types of projects related to architecture like columns, stairs, facades and porticoes. Nevertheless, the expanding product lines brought other knowledge requirements such as new materials (metal and wood). So, why should Chesney's present itself as an expert in stone and marble when it can also take advantage of skills in other materials? Why not use the materials already handled to amplify the range of offer? Why not transfer knowledge to other industries and products? Should Chesney's have a more diverse portfolio?

- What is Chesney's market? The company offers support since pre-contract tenders to installation and sign off of the completed piece. Chesney's is prepared, alongside with contractor

partners, to deliver a service that meets the demands of any project (residential or hospitality), independently of its scale or complexity. So why not implement it on other industries? There are interesting industries embodied on the luxurious lifestyle. Why not research and develop fireplaces (and other products) specifically to yachts? Yacht construction and design industry requires exquisite furniture composed by stone and marble and other materials.

- Who are Chesney's customers? Chesney's products are very driven to higher income classes since the type of product has connotations and characteristics of being luxurious, unique and exclusive. The material choices and attention, as well as details, production and quality, demonstrate an elegant and expensive look which increases the value and price of the pieces. However, why not create a less expensive collection that would be more approachable and easily assessed by people with lower incomes? To create something that does not damage the status of the company, but also attracts less wealthy people? Why not a sub-brand?

- In what home areas does Chesney's influences and focuses on? Through time, Chesney's has developed and provided goods that create comfortable and exquisite homes. The areas of the house where the company is contributing on are social or exterior areas. Why not concentrate and have influence on other areas of the house? Why not on the indoor areas and interior decoration industry? In order to successfully disrupt while maintaining the direction of the company, there are other social areas of the house where Chesney's is completely able to work for. In fact, the company was already hired for projects regarding stone sinks and bathtubs. So why not start interior design by completing the bathroom furniture? Chesney's has the required capabilities to pursue this, since stone and marble work is needed. Then, make efforts to show more expertise in wood (having samples of several wood types) in order to reach the same reputation as the work in stone and marble. This would add one more branch to the company's offered products, services and choices for the existing and potential new customers.

- **What design does Chesney's provide?** Chesney's started its business by recovering fireplaces and moved to accurate replicas of antique fireplaces and wood burning stoves. So the main focus is classical style pieces. But, since the company provides so many different projects, why not also provide the expertise in modern and minimalist products? This would make Chesney's more attractive to people with other décor preferences.

- **What is the corporate scope of Chesney's?** The company extracts its raw materials from different parts of the world, but the main material suppliers and craftsmanship are in Portugal and China. *Lucidal*, in Montelavar, Portugal, is one of the companies that provide quarry work, extraction, machinery and craftsmanship. *Lucidal* manufactures about 90 percent of Chesney's projects and Chesney's also orders about 90 percent of total work in *Lucidal*. Why should the companies continue to work as separate identities? Would *Lucidal* accept an acquisition? The companies are already very dependent on each other. In fact, if one company abandons the other, the second would be in a very complicated situation. Would a merger or acquisition make sense for Chesney's and *Lucidal*? Would it decrease possible bankruptcies?

Idea generation through orthodoxies disrupture that stretches the growth options for Chesney's may now be summarized: acknowledge Chesney's not only for the expertise in stone and marble but also other materials, take advantage of other industries, markets or luxury niches (e.g. yachts), creating a sub-brand for less expensive products to maximize the range of clients, going deeper on product design for social spaces and start interior design industry by creating a bathroom furniture line, create a balanced equilibrium on the offered product's styles (by focusing also on modern and minimalist designs) and develop the company by merging or acquiring *Lucidal* to better protect the safety of both organizations.

FUTURE SCENARIOS

In order to assess the possible future scenarios that the company could face, the critical uncertainties that Chesney's could encounter are the unsure purchase characteristics and demand

preferences from existing and potential clients, because of the shopping trends influenced by Internet and daily routines (does the client seeks experts in each sector or product, or does it prefer convenience in where and who to buy from) and the importance of design and aesthetics for people in general and the evolving taste for Classical decoration.

The conditions under which Chesney's will plausibly operate in the future can be summarized as follows: concentrating on current specific expertise and focus on the traditional classic styles - **business as usual**; continuing with a narrow expertise range of knowledge to become true specialists but open the decoration style variety to more modern and simplistic - **evolving new trends**; to focus on the classical decoration style, since the vintage is becoming more trendy, but open the scope of the designed and produced goods to spread the expertise into a diverse portfolio of products and industries - **spread the knowledge**; and finally, to have a wider range on what Chesney's creates by answering to more required products to maximize success and also to expand the offer of décor styles - **contemporary accessibility**.

Figure 1

		CLASSICAL DECORATION	
BUSINESS AS USUAL Customers prefer and are attracted to classical and antique decoration because it is perceived as being luxurious and majestic. Therefore, their beliefs and knowledge could be conservative in a sense that the confidence on the professional is essential. They are informed clients so they expect the seller/designer to be a specific expert on a certain asset they want to purchase. The true know-how is key so it would make sense to have strong wisdom on few elements.	AESTHETICS TASTE	SPREAD THE KNOWLEDGE Since trends are cyclical, the taste in classical details at home will be more frequent. People's busy lives make them prefer a reliable company that has good knowledge and skills on most of what they need. People's lives are getting hectic so time is very valuable. Which means that the clients will appreciate designers and businesses that they can trust and that are practical at the same time, so wider ranges of product types are interesting.	
		DEMAND CHARACTERISTICS	CONVENIENCE
PROFESSIONAL CONSUMERS		CONSUMER	
EVOLVING NEW TRENDS Modern and minimalist decoration became very popular and attractive. The ones who have these sorts of homes are usually people related to arts and design, people interested on this subject or have someone working for them that does that kind of decoration services. The fact is that this type of decoration is getting popular among young people. The next generation of home owners can continue to follow this modern and simplistic trend. The expertise is appreciated by people attracted to design.		CONTEMPORARY ACCESSIBILITY Several people became aware of modern and contemporary decoration trends so décor stores have been trying to sell products of this type. These stores provide several house items and offer a lot of convenience because of the variety, price and employees. The tendency is to adopt part of this minimalist decoration and search for companies that offer a broader range of products so that it is possible for the client to efficiently purchase everything they need.	
		MODERN DECORATION	

Source: Author

ORGANIZATIONAL RESOURCES OPPORTUNITY

By analyzing the possible scenarios and how Chesney's can better prepare itself for the future, it is perceptible that the company could leverage its knowledge, expertise and reputation and project a broader image that specializes both on fireplaces as in other elements and both stone and marble as in other materials (wood, for example). The resources are available and the suppliers and partnerships are established as well. So it is a matter of taking advantage of those resources (raw materials, knowledge, partnerships and clients) and finding the right place to leverage them.

When assessing all the opportunities from orthodoxies disrapture, future scenarios and organizational resources there are three options that stand out. These options have the power and ability to be considered growth opportunities and are as follows: a new product line in home interiors which is the bathroom furniture unit, attend the luxury niche of yacht design through the products it already produces and creating a sub-brand to represent lower price products to broaden the possible potential clients.

CHAPTER D – NEW PRODUCT LINE INTRODUCTION

OPPORTUNITIES ASSESSMENT - ATTRACTIVENESS

Competition – Bathroom furniture - high/ is expected to increase - the competition that Chesney's will face will be the existing one, which has a significant strength of prices, location and product offering, plus other established companies that offer serious challenges. Regarding bathroom furniture, there are other companies with portfolios in that market, but they target different styles or there is a lack of attention in details. These companies are Neptune, Burlington and Old London Bathroom Collection. Some companies emphasize the craftsmanship and quality, others not so much, some of them don't have a specific style and choose to comprise from classic to modern and contemporary. **Yacht interior design** - very high/ is expected to remain high - if Chesney's decides to have a more specific approach onto yacht design, H2 Design and Andrew Winch Designs are companies that already offer those services and are both

from London. These companies have years of specific knowledge of boat engineering requirements, they know the industry, so it is difficult to compete. **Sub-brand** – high/ is expected to remain high - the option that provides a slightly lower priced brand displays several companies with lower priced products, for example Classic Fireplaces, Classic Stoves and Fireplaces, Fireplace World and Haddonstone. However, they have a much more undifferentiated marketing which therefore does not express care and uniqueness towards the client. Chesney's sub-brand would have the reputation benefits of the mother company, lower prices but would maintain the delicate design and production, sensitive touch of customer satisfaction and personal interaction.

New Entrants – Bathroom furniture – medium/ is expected to remain medium - companies need to invest a lot of time and money in finding and hiring suppliers, extract raw materials and, just as important, to establish a powerful reputation. Customers will find difficult to trust in a newbie, since they have other options that already have proven their worth and credibility.

However, there are several small craftsman, mason or carpenter companies that can deliver work on request. **Yacht interiors** – low/ is expected to remain low – the regulations in this industry are strict. The details and security components make it much tougher than to build products that remain on solid ground. However, this is applied on the entrance of Chesney's in the industry as well. **Sub-brand** - medium to high - the products within the luxury market focus on trust, quality and service and not on price. However, lower priced brands or collections, will attract other type of clients that do not value that as much. This makes them consider other companies that higher class people would not. Not paying attention to certain details facilitates the business so it is easier for these companies to be willing to enter the industry.

Buyer Power – Moderate to high/ is expected to maintain high in all three options - the client has other choices when it comes to stone and marble work of fireplaces and other architectural elements. High-end furniture to residential or yachts are available in some companies. There are not much,

but all have a good quality and design presentation standard. So the client has the possibility (despite limited) of switching in case there is a certain detail that did not meet the expectations.

Supplier Power – Moderate/ is expected to remain moderate - the suppliers and factories used to produce bathroom furniture, yacht interior design or the sub-brand are the ones already established. The metal and wood companies do not have much power over Chesney's since there are several companies offering similar services. However, they are favorable in terms of location. Nevertheless the stone and marble factory is a very important company for Chesney's since most of the projects are produced and finished there. The supplier power of *Lucidal* is tremendous and Chesney's would spend some difficulties if it was deprived of their services. The relationship is strong and long lasting so finding a credible and trust worthy company that would replace it, would require time which would injure company's sales. However, the level of the supplier power can be considered moderate, since the stone and marble company has the exact same problem (or even worse) that Chesney's. Which means that *Lucidal*'s projects are mostly given by Chesney's so it is not beneficial at all for them to discard the company.

Substitutes – Low/ is expected to remain low for the three options - substitutes for wood burning stoves might be natural gas or alcohol based fireplaces however, Chesney's already provides an electric alternative to wood burning fireplaces. The products manufactured by Chesney's are majorly stone and marble, which means that, considering the final look, it is possible to use stone composites to achieve a similar function, but it will lose quality which is an important characteristic for the customers. Regarding bathroom furniture, there are several other decor styles available in the market nevertheless a bathroom unit is irreplaceable.

Complementors – *Bathroom furniture* – low/ is expected to remain low - complementor companies for the bathroom furniture is C.P.Hart since one of the possibilities could be ceramic sinks and this company has a wide variety of products, inclusively several styles of tabs. It can also offer the rest of the functional furniture in the bathroom like toilets and accessories. *Yacht*

interior - high/ is expected to remain high - Chesney's is the complementor of yacht and boat construction companies especially in the UK and the United States such as Dixon Yacht Design, Tony Castro Design and Ken Freivokh Design so there is a heavier reliance on the companies.

Sub-brand – low/ is expected to remain low. Chesney's has a wide range of products, accessories and knowledge so it does not sense an effect of possible complementors.

In essence, the forces model for the three options is similar. The main differences are new entrants, where the sub-brand market facilitates entries since it diminishes the attention to detail, and the yacht design holds a challenging entry which is a disadvantage for Chesney's.

Competition is very tough, however, being yacht design a more specific industry with serious fire regulations and required knowledge makes the established competitors much stronger.

OPPORTUNITIES ASSESSMENT - MARKET POTENTIAL

The design industry in the UK is expected to be worth £3.8 billion by 2018 (Banks, 2014).

Bathroom furniture follows the design and interior design market and about 11 percent of design businesses in the UK work in product and industrial design. Compared with other disciplines, like communication and multimedia design, product design has the lower growth in demand.

However, the recruitments for product design jobs were over the average design recruitments.

One third of the product design companies exist for over 15 years. There were nearly 46,000 designers working in London in 2008 (13 percent increase since 2003) (Design Council, 2009).

According to an article from American Society of Interior Designers, the interior design business in the US is growing and has already recovered from the recession. The industry is expected to be worth \$8.6 billion (£5.7 billion) in 2016 and 25 percent of design companies (of all sizes and design branches) intent to hire new staff. Interior design industry, with 60,824 employed designers, is also evolving due to the macro-trends that the world is experiencing. Macro-trends such as health and well-being, technology and sustainability are forcing firms to change their

tactics and those who do not adapt become at risk to be overcome moreover stronger international competition (American Society of Interior Designers).

Yachts industry is expected to be worth \$73.8 billion (£49 billion) in 2020 (Global Industry Analysts, 2014). Yacht interior design market is influenced by the conditions of design and construction industry which is stable and strong (White, 2015). The search for skills and expertise of yacht design and construction had been in increasing demand. In 2013, 70 percent of companies rated their future prospects as “good” or “excellent” (Trotman, 2013). The UK’s niche yacht business is bright. Superyacht UK, an industry association, stated that in 2014, were built approximately 400 yachts worldwide with demand mainly from China, Russia and the USA. Italy manufactures 40 percent of the world’s superyachts, however British companies have the advantage of client’s preference for UK’s fast and efficient transactions and English law (Economist, 2014). The market potential for sub brand and brand fragmentation strategies is quite interesting for different reasons. Sub brand is more effective if the company aims to take advantage of cross-pollination success (to expose employees to different ideas and ways of thinking in order to make the company stronger and productive). It maintains the message, colors and typography of the mother brand, but with a defined differentiation to reach each marketing and customer goals. While brand fragmentation (like Volkswagen, Audi and Porsche) separates the brands, so they can be perceived with different levels of worth and value (Mark, 2015).

The market potential is positive for the three options. Interior design is important for people in the UK and US and the market is growing and evolving. Yacht interior is a very luxurious industry, however requires specific knowledge on fire regulations and materials. The sub-brand is interesting due to the possibility of including other segments while extends the range of clients.

OPPORTUNITIES ASSESSMENT - PROBABILITY OF SUCCESS

When doing a probability of success assessment (appendix eight) it is noticeable that the bathroom furniture line option offers less risk, since the knowledge, reputation, channels and

relationships needed are already provided from the usual current business of the company. The other two options, despite being appealing, are weaker in comparison. These options are riskier and less attractive to Chesney's, whether for the complication and time needed to enter the business (regulations and tough crucial relationships with yacht builders), as well as brand design and needed relationships with new distributors, in the case of a lower priced sub-brand,. The company's financial, human and technological resources satisfy in a large extent the options stated.

INTRODUCTION PLAN

In order to successfully complete the work project's structure of marketing and promotion plan, only one of the three growth opportunities will be assessed regarding this phase. The opportunity that will be taken into account and developed through an introductory plan is the new product line of Chesney's bathroom furniture units. It is a breakthrough innovation that can demonstrate Chesney's leader profile in the industry and its willingness to progress and improve.

- **DIRECTION**

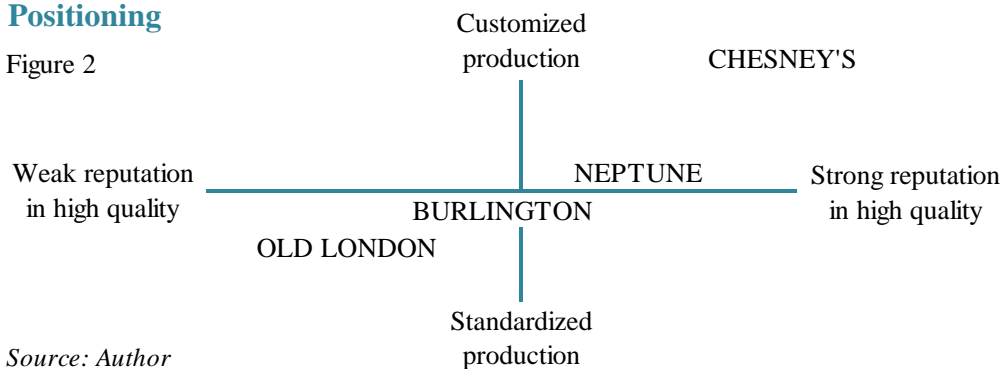
- **Segmentation and Targeting**

Mr. Rutherford and Mrs. Underhill are examples of usual Chesney's clients. Mr. Rutherford lives in Chelsea, London in a very stylish flat. He works as financial director in a very prestigious insurance company for almost 10 years. His wife's birthday is approaching so he is thinking about a Chesney's fireplace as a gift present, since it has been her wish for giving the final exquisite touch to their living room. Mrs. Underhill lives in a mesmerizing house in Kensington, London. In her daily basis, Mrs. Underhill spends her time working in her non-profit organization and meetings with powerful people from politics, being an influential person herself. She chooses Chesney's to renovate her bedroom fireplace, because of the top quality and perfection. In fact, she is extremely happy with her backyard porticoes from the company (her friends loved the luxury and majestic feeling) so she trust Chesney's work entirely. As seen, benefits sought and attitude towards products are crucial variables, because the perfection in the quality and

production are what matters to them. The reputation of the brand also contributes on their company's choice. Their posture regarding the product generates feelings of empowerment, high-quality, sumptuousness and delight. They want to experience true beauty, wealth and success. The inequality of household incomes in UK is increasing. The top 10 percent have an average income of £102,000. Fortunately for Chesney's, the highest average income region of UK is London, around £42,000, followed by South East, around £40,000 (The Equality Trust, 2015). The segments include medium to high income classes to very high. Chesney's also segments people with taste for classic and classic modern design, good quality material and thorough construction. These specific segments can be approached as one group. Chesney's targets these segments with a concentrated marketing targeting strategy. These segments are different but the similar characteristics enables Chesney's to successfully service them.

○ **Positioning**

Figure 2



Source: Author

The new product line of Chesney's bathroom furniture units will be designed to medium to high class families with tastes for luxurious lifestyles and classic to classic/modern decoration preferences. These bathroom units will include sinks and the self-stand storage furniture. There are several wood tones and types for the client to pick, as well as several options for marble and stone. The conventional ceramic sink will be also available. These products are high-end, carefully designed through the smallest details providing an exquisite look as it fulfills all the functional requirements and comfort. Chesney's aims for the highest quality and uniqueness in the new product line usage and finishing. Characteristics like soft-close doors and drawers, stone

or water proof plinths, marble coating inside the drawers to allow storage of wet materials, innovative storage to save space are examples of functional elements that will be applied. Several options regarding materials and mouldings will enable a deep customization for the client, wherein is going to be possible to personalize to the customer's tastes and styles. Chesney's is confident to state this because of its years of experience and reputation in the market. The clients who are familiar with the company can acknowledge the seriousness, commitment, perfectionism and trust of the brand. And those who are new to Chesney's can easily feel satisfied about its performance through the company's culture, integrity, portfolio, craftsmanship and testimonials. So Chesney's pursues uniqueness through differentiation, both tangible as intangible, covering total customer responsiveness since it embraces the whole relationship between suppliers, customer and products. The objective is to offer superior value on product differentiation, through details customization, wide range of options, special features with optimized functionality and top design. While offering fair value on operational competence (services, reliability and logistics) and customer responsiveness, being that the customer satisfaction is an essential element for Chesney's once it is perceived as a qualified, skilled and top quality brand. So being customer intimate is taken very seriously since it makes the whole difference in how the client feels about the purchase. As described in the figure 2, Chesney's offers the best quality and customization until every detail comparing to other companies. These can be considered mild competitors since their high production and standardized features create loose of interest in Chesney's targeted clients.

WHAT REPRESENTS THIS PRODUCT LINE?

The hierarchy of Chesney's bathroom units begins with the core product which is the bathroom furniture with the functionality of smart storage and sink. The actual product benefits from the brand name, since Chesney's is a reliable company with a considerable reputation, good quality and top design and styling, brought by the wide range of choices. The client's expectations might be exceeded through the online platform, efficient delivery and installation and after-sale service

care which strengthens the relationship between the two. The consumer insight about the product lies on the fact that it belongs to a basic daily need. The components of a bathroom are vital to modern days, so the furniture provided by Chesney's will complete and garnish an indispensable room and action, while taking design into consideration as well. Chesney's is committed to provide a product line with top style and quality, while applying all the acquired knowledge regarding materials to improve the client's lifestyle. The consumer is able to trust the company thanks to its reputation and credibility on the available products. There will be a constant attention to details and ruthless attitude towards flaws. The client will see in Chesney's bathroom line a product that is unique, true and accurate to its classical inspiration, customized through several different possibilities and from a credible and committed company that supports them before, during and after the sale. The bathroom furniture line will be presented to the clients in an online platform in the company's website. This platform will have all the customized details available for the client to choose and visualize through a 3D model. Examples of the changeable features are: type of wood and its finishing, type of stone, moulding shape, drawers, doors, shelves, type of sink. The designs can be grouped in three main styles which are: small unit with single sink, medium unit with two sinks, and large unit with one or two sinks with curved ends. The measurements regarding height will take into account the 50 percentile of the average American man (being the English man similar to an American, and the European man very different in height ranges) of about 177 centimeters. Chesney's will be strict and extremely demanding with quality standards. The company would not use wood based materials or veneers and stone composites. The final budget will be provided and the customer can ship the product to the final location. Chesney's predicts that the time interval between sending the request and delivery to be 6 to 8 weeks.

HOW MUCH IS IT WORTH?

The product line will have several possibilities for the clients, which mean that the prices will also vary according to the preferences (complexity of the mouldings, type of wood and marble,

sinks, size and finishing). The main characteristic that will influence the price is the size of the furniture. There are three unit levels: single unit furniture cost £878 with final price £2,640; double unit furniture cost £1,321 with final price £3,970; double unit with curved ends furniture cost £2,052 with final price £6,165. The cost includes raw materials, production and distribution. This means that the gross margin for Chesney's is 66.7 percent on each unit. The expected sales for the first 12 months are *circa* £200,000, which represents sales of about one unit of each per month (appendix nine). In order to assess the economic viability of the project, the NPV was computed. It was calculated with a revenue growth rate of 5.14 percent given by the historical growth rate of the company. It was also assumed that this new product line does not require any extra investments and capital expenditures as well as additional financing, since it will use the current resources of the company. The promotion and marketing will be reinforced in the first 2 years and then match Chesney's average cost percentage of 4 percent. The wages and salaries were computed taking into account a project manager in London headquarters (£48,000 per year) and a product designer in Lisbon (€12,400 per year), using the company and industry average salaries (source CW Jobs). The new project generates incremental profitability due to its positive NPV (approximately £49,500 for the first 4 years; approximately £3,240,000 with continuing value), therefore confirming the economic viability of the project (appendixes ten and eleven).

WHERE WILL WE FIND IT?

Chesney's displays a selective distribution, since it only disposes its products on its own showrooms or in specific retailers that are able to sell the goods and still maintain the finesse and reputation of the company. In the case of the new interior product line of bathroom furniture it would follow a different path since it would not be available in the retail stores. The company would operate through zero channel level, which means zero intermediaries between the clients, in order to be highly exclusive. However, the goal is to provide a new channel through the company website, a new platform where the customer can easily choose between the various elements and

build the furniture according to their taste, through CGI – computer generated imagery. This will make possible for the client to see the finish product, verify the budget and proceed with the order. Chesney's, Woodteam and Lucidal will receive the order, manufacture the goods and dispatch the pieces together to the final location. Chesney's will make sure to send assembling specialists to set up the furniture and make it ready to use, a service that it already provides.

HOW WILL IT MAKE ITSELF KNOWN BEFORE THE CUSTOMERS?

Luxury and exquisite products are all about quality and exclusivity. Chesney's current promotion strategy is not extended and it will remain that way. The reputation of the company and recommendations had drawn the clientele. Initially, Chesney's could focus on giving unique treatment to certain clients by demonstrating them the new product line, even before the official debut. This will make them feel special and simultaneously, the company would be able to perceive decisive feedback from the clients. This is identical to creating a prototype, since Chesney's could benefit from essential information at a critical point in time. After this initial delight to special clients, the official debut will be in the company's website. The convenience of promoting and selling the products online is popular on luxury brands as well (Louis Vuitton, for example). In fact, a study conducted by Google and Unity Marketing showed that high-earning online shoppers made more per year than in store (Sherman, 2009). Parker Hobart provides Chesney's with marketing, press and public relation services, so the company will take advantage of this partnership and promote through journals and magazines. It is interesting to consider articles on Wall Street Journal or USA Today, being considered the journals with the most powerful and wealthy readers (Mayerowitz, 2007). Promoting through few channels keeps the uniqueness and mystery by maintaining a more exclusive interaction between Chesney's and their clients.

CHAPTER E – CONCLUSION

This work project started by presenting a company of luxurious stone and marble products in the industries of design and architecture - Chesney's. The challenge was to develop a strategic plan

that would fit the company and cause developments and improvements to Chesney's. Through orthodoxies disrapture, future scenarios and resources opportunity, the objective was to create a new product line that would take advantage of the company's knowledge, resources and reputation. Several options were discovered, three opportunities were considered and finally, one growth opportunity was chosen as the strongest possibility for the company - the bathroom furniture units. The development of these products provide several possibilities for Chesney's to offer better responses to interior design in social indoor areas, which is an advantage for existing and potential clients. This strategy aims to improve the company's growth, but especially, to provide more products to its clients with the same quality, elegance and refinement while attempting to be a more complete company. During the execution of the projects, Chesney's should hire or include someone on the team to be in charge of project management. The company already incorporates several branches in different industries: architecture and interior design; old and new projects; marble and stone and wood products; exterior and interiors. So, it is crucial to have a person responsible for coordinating the projects and making sure that resources are being efficiently distributed and deadlines are being met. It would be also necessary to extend the design team in one product designer, to be in charge for the creation of the digital and 3D drawings of the furniture and consistently being improving and innovating, and perhaps, later, expand even more the scope of the interior furniture products of Chesney's. Due to time constrains, this work project could benefit from other analysis that were not discussed, for example complete assessments to the other growth options to deliver more accurate comparisons and progress measurements so that the company could actually evaluate and appraise the success of this strategic plan.

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